STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Rhode Island Division of
Public Utilities and Carriers
89 Jefferson Blvd.
Warwick RI 02888
(401) 941-4500

April 14, 2020

Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

IN RE: –Rhode Island Energy Efficiency and Resource Management Council (EERMC) - Proposed Three-Year Savings Targets for The Narragansett Electric Co. d/b/a National Grid's 2021-2023 Energy Efficiency Procurement Plan **Docket 5023**

Dear Luly,

Please find the State of Rhode Island Division of Public Utilities and Carriers, (the "Division") comments in the above captioned matter for filing with the State of Rhode Island Public Utilities Commission.

I appreciate your anticipated cooperation in this matter.

Very truly yours,

Jon G. Hagopian
Deputy Chief Legal Counsel

Three-Year Energy Efficiency Savings Targets

Introduction and Summary

The Rhode Island Division of Public Utilities & Carriers (DPUC) submits these comments regarding the 2021-2023 Energy Efficiency Savings Targets (the Three-Year Targets) filed by the Energy Efficiency and Resource Management Council (EERMC) on March 23, 2020 (the EERMC Report).

These comments are based on our review of the EERMC Report as well as the Rhode Island Energy Efficiency Market Potential Study prepared by Dunsky Energy Consulting, March 13, 2020 (EE Potential Study). The comments are also based on the DPUC's on-going participation in the Energy Efficiency Collaborative, as well as our participation in the development of the EE Potential Study as a member of the Market Potential Study Management Team (MPSMT). Finally, and as discussed below, the Division's comments are offered as a prudent and measured approach to the unprecedented COVID-19 financial crisis engulfing local, state and global economies.

The DPUC recognizes the importance of the National Grid Energy Efficiency programs for reducing energy costs, supporting reliable energy supplies, assisting low-income customers and struggling businesses, and achieving Rhode Island's climate change and sustainability goals. The DPUC continues its long-standing support for these programs and commits to working with the Commission, National Grid, the EERMC, and other stakeholders to ensure that the programs continue to be successful and effective at achieving the state's energy goals.

However, the DPUC is concerned with the Three-Year Targets proposed by the EERMC, especially in light of the potential impacts on the economy from the COVID-19 crisis. From the Division's perspective, the Max Case targets proposed by the EERMC for 2021 do not appear to be achievable, given the significant ramp-up in program delivery that would be required to reach them. Further, we are concerned that those target levels could necessitate significant increases in electric rates that materially affect short-term affordability during a looming economic crisis, depending upon how the targets approved by the Commission at this stage are interpreted for planning purposes.

As stated above, the DPUC's concerns are driven largely by the uncertainties and challenges introduced by the COVID-19 pandemic. The DPUC recognizes that the EE Potential Study was largely prepared prior to the pandemic and, therefore, could not have accounted for its effects in the achievable potential estimates nor the near-term effects on the Rhode Island economy resulting from higher energy efficiency program budgets needed to achieve them. However, we are now experiencing the unprecedented impact of today's local, national, and global crisis. With this knowledge in hand, we believe it would be extremely important to consider this significant new development when using the EE Potential Study to develop Three-Year EE Targets.

Given the unexpected and uncertain impacts that the COVID-19 pandemic is having on the economy and the exacerbating impact that any near-term rate increase could have on the citizens of Rhode Island in 2021, the DPUC recommends that the Commission not adopt the Max Case targets proposed by the EERMC. The Division recognizes that this position in opposition to the EERMC recommendation is unprecedented. But the economic crisis that we are potentially facing from COVID-19 is unprecedented as well. In that context, it is important for the Division to note that it is not the intention of the Division to be critical of the efforts, intentions, and good faith consideration that the EERMC was giving to the advancement of energy efficiency when it approved its high aspirational recommendation. Nevertheless, while the Division typically supports the achievement of robust energy efficiency targets, at the same time the Division is uniquely situated as the consumer advocate to assure that the broader implications for ratepayers are appropriately addressed in the planning process if high aspirational targets have the real potential to cause an unintended, negative financial impact on the wide body of ratepayers as a whole in the near term.

As a result of the COVID-19 crisis, the state may be approaching a moment in modern-day utility history when both ratepayers and the utility providing services could be facing problems with cash flow. While we do not know at this time whether an extended cash-flow crisis is at hand, the real possibility of this happening is suggested by National Grid's recent responses to the Commission in Docket 5022, where in March alone, there has been an aggregate shortfall in customer payments to the utility by more than $1 million per day. Moreover, today, the International Monetary Fund has stated that it is very likely that this year the global economy will experience its worst recession since the Great Depression, surpassing that seen during the global financial crisis a decade ago.

EE Potential Study

The EE Potential Study estimated three different levels of achievable potential:[1]

- Low: Applies incentives and enabling activities in line with National Grid's 2020 Energy Efficiency Plan to *simulate business as usual*.
- Mid: Applies incentives and enabling activities *above and beyond* National Grid's 2020 Energy Efficiency Plan.
- Max: Completely eliminates customer costs and further reduces customer adoption barriers to estimate *maximum achievable potential*.

Tables 1 and 2 present the potential energy savings from the EE Potential Study in terms of savings as a percent of sales, for the electric and gas EE programs. In both cases, the savings are compared to those in National Grid's 2020 EE Plan. For the electric savings, the 2020 EE Plan savings exclude the savings from A lamp lighting measures because these measures are expected to be unavailable for efficiency savings in the future.

Table 1. Electric EE Savings Potential (Savings as a Percent of Sales)[2]

Case	2020 EE Plan	2021	2022	2023
Low	1.8%	1.9%	1.9%	1.7%
Mid		2.4%	2.4%	2.2%
Max		2.7%	2.8%	2.6%

[1] Dunsky. 2020. Rhode Island Energy Efficiency Market Potential Study – Final Results (EE Potential Study), March 13, 2020, slide 6.

[2] EE Potential Study, slide 9.

Table 2. Gas EE Savings Potential (Savings as a Percent of Sales)[3]

Case	2020 EE Plan	2021	2022	2023
Low	0.8%	1.1%	1.2%	1.2%
Mid		1.5%	1.5%	1.5%
Max		1.8%	1.8%	1.8%

Table 3 and 4 below present the estimated budgets associated with the potential energy efficiency savings levels. These budgets are compared to the actual EE budgets in 2019 and the proposed budgets in the 2020 Plan.

Table 3. Electric EE Program Costs (mil $)[4]

Case	2019 Actual	2020 Plan	2021	2022	2023
Low	$93	$111	$83	$85	$83
Mid			$131	$135	$133
Max			$206	$212	$210

Table 4. Gas EE Program Costs (mil $)[5]

Case	2019 Actual	2020 Plan	2021	2022	2023
Low	$33	$34	$36	$37	$36
Mid			$57	$59	$58
Max			$90	$93	$92

Three-Year Targets Proposed by the EERMC

The EERMC has recommended that the High Case savings levels be used as the Three-Year Targets. The EERMC Consultant Team believes that the High Case targets represent the maximum achievable potential available in Rhode Island, which is consistent with the purpose of the Three-Year Targets.[6]

The EERMC Report is clear that the targets are high-level estimates of the potentially available cost-effective efficiency. The EERMC report does indicate that the purpose of these targets is to guide the development of the EE Plans. But they do not constitute a plan or imply a commitment to the savings levels. The Three-Year and Annual Plans provide the more detailed assessment of the measures, implementation strategies and approaches, and costs that will be needed to achieve the targets.[7]

3 EE Potential Study, slide 16.
4 EE Potential Study, slide 15. The 2020 Plan numbers are from National Grid's 2020 EE Plan.
5 EE Potential Study, slide 20.
6 EERMC Report, page 5 and pages 7-8.
7 EERMC Report, pages 3-4 and page 7.

The EERMC Report notes that Rhode Island law requires that the Three-Year and Annual planning processes consider important factors to ensure that the savings goals and overall plans are reasonable and prudent. The factors to consider include:

> "*overall cost, rate and bill considerations*, workforce factors, environmental, equity, and other non-energy considerations, market characteristics such as EE equipment supply chains and consumer education awareness, and State policy objectives including carbon emissions reductions and associated clean energy goals, among others".[8] (emphasis added)

While the EERMC Report has qualified its recommendations by stating that they do not constitute a plan, the DPUC still remains concerned about their potential effect. The EERMC report notes that the savings targets used for Annual EE Plans might be lower than the Three-Year Targets, but that "it is very reasonable for the detailed, granular planning process to generate Plan savings goals which ramp towards those [Three-Year] targets over time." [9]

Achievable Potential Concerns

The DPUC is concerned that the Max Case savings levels will not be achievable, particularly in 2021 and perhaps in 2022 and 2023. For the electricity programs, the 2021 EE target represents an increase in efficiency savings as a percent of sales of 50% relative to the 2020 EE Plan. For the gas programs, 2021 EE target represents an increase in efficiency savings as a percent of sales of 125% relative to the 2020 EE Plan. These are very substantial increases over current efficiency activities.

It is important to recognize the implications that the pandemic is likely to have on achieving EE savings in 2021 and potentially over the next several years. It seems likely that the actual 2020 savings will be below the planned level of 2020 savings because of work stoppages and other implications of stay-at-home directives in Rhode Island and the US. The pandemic creates a great deal of uncertainty regarding the potential to achieve efficiency savings after 2020 because of the ambiguity regarding the extent and duration of the response to the pandemic and the short- to long-term economic impacts of the pandemic.

Energy Efficiency Budget and Short-Term Impact on Affordability

The economic impact of the COVID crisis also could have a material impact on the ability of many classes of ratepayers to pay their energy. In that context, the DPUC is most concerned with the rate-implications of the potential budgets underlying the Max Case EE savings, should the target-setting at this stage have a material impact on budget development. The magnitude of the projected budget increases between historic levels and the Max Case reflected in the EERMC filing are very significant. For the electricity programs, the Max Case budgets are roughly twice as high as the 2019 EE budgets. For the gas programs, the Max Case budgets are three times as high as the 2019 EE budgets. This suggests that the System Benefit Charges for these programs might need to be increased by a factor of two to three, respectively, if the approved targets have the effect of directionally locking in planning requirements. A $20 million electric rate increase and $23 million gas rate increase, respectively, for a mid-level case will

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8 EERMC Report, page 6.
9 EERMC Report, page 6.

be challenging enough, but the Max Case could require a $95 million electric rate increase in one year. Add to this a $56 million rate increase for gas distribution customers who are also electric customers, and it is easy to see how the Rhode Island economy in 2021 could be negatively impacted in the short term. It would equate to an increase of over $150 million in energy delivery costs in one year across the state, not even taking into account the other rate increases that would potentially be needed in 2021 in other areas of the electric and gas businesses to continue reliable service.[10]

The DPUC recognizes that the budgets proposed for the targets are preliminary and will be addressed in more detail in developing the Three-Year and Annual Plans. We also recognize that rate, bill, and participation impacts will need to be considered in developing the Annual Plans. Nonetheless, the DPUC believes that adopting the Max Case efficiency targets at this time could send the wrong signal to National Grid, the EERMC, and other stakeholders, and consequently create too much pressure to develop energy efficiency programs that are not only incapable of achieving the targets, but not affordable for Rhode Island customers at this time of economic crisis. Experience from recent years indicates that the targets adopted by the Commission carry a lot of weight in future deliberations regarding energy efficiency budgets and savings.

Recommendation

The DPUC recommends that the Commission not approve the Max Case target for 2021. The DPUC takes no position at this time whether the “Low Case” efficiency savings, the “Mid-level” case, or another unstated level should be adopted instead. The DPUC is viewing this through the lens of near-term rate impacts and their potential impact on the near-term economy and the affordability of energy coming out of the pandemic. It is still possible that the current Energy Efficiency factors will result in a significant positive balance by the end of 2020 due to a significant drop in program cost incurrence from the pandemic. Any positive balance would be carried forward to the next program year in setting the new rate for the program. In such case, it is entirely possible that a budget that reflects the Mid-level case for the 2021 program year could be accommodated without a material increase in rates. However, cutting in the other direction is a drop in kilowatt-hour and therm consumption caused by the pandemic that would reduce the amount of dollars collected from each of the volumetric Energy Efficiency factors. Absent a reliable forecast of these effects, it is not possible to reliably determine at this time what the net effect on rates would be from building a budget and setting a rate off the Mid-level case. Nevertheless, there is a wide enough difference between the Max Case recommended by the EERMC and the Mid-level case that needs no forecast to support an opinion against adoption of the Max Case.

The DPUC recognizes that the purpose of target-setting should be to set aspirational goals, and not to set targets that must be met. In addition, we recognize that the targets should represent the full amount

[10] Another potential effect of the pandemic is the counter-intuitive impact on rates of the shutdown on businesses across the state. There are many rate-reconciliation provisions in effect today that set a rate to recover past costs based on forecasted kilowatt-hour consumption. In those cases, a material drop in kilowatt-hour consumption could result in a material amount of under-recoveries. In turn, this results in carry over of unrecovered costs which affect the re-set of rates for the following period, resulting in rate increases to make up the difference in lost revenue. One example is the revenue decoupling mechanism. But there are several others as well.

of cost-effective and achievable efficiency potential. Nevertheless, we believe that the high aspirations reflected in the current EERMC recommendation that would use the Max Case have since been overtaken by the local, national, and global economic realities that we are facing today. Adopting the Max Case could send the wrong planning signal at a time when the economy is in a substantial state of uncertainty.

The DPUC looks forward to being engaged in the program development process. As the agency charged with the responsibility to be the ratepayer advocate, it will be the DPUC's goal to maximize the energy savings and corresponding benefits that can be achieved through the programs, taking into account the impact that any significant rate increases can have on the current economy in light of the COVID-19 crisis. In that regard, it is important for the Commission not to interpret the DPUC's comments as suggesting any type of scaling back of energy efficiency. To the contrary, the DPUC continues to support the programs as reflected in the aggressive 2020 program plan that was approved by the Commission prior to the current COVID crisis and the aspirations to achieve greater levels of savings. The DPUC will be working with stakeholders to examine how the programs can grow further to continue achieving the benefits for Rhode Island in the most cost-effective ways.